

**ST. JOSEPH COUNTY ROAD
COMMISSION**

(a Component Unit of St. Joseph County)

Centreville, Michigan

FINANCIAL STATEMENTS

For The Year Ended December 31, 2003

ST. JOSEPH COUNTY ROAD COMMISSION
(a Component Unit of St. Joseph County)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements for the Year Ended December 31, 2003	
Statement of Net Assets and General Fund Balance Sheet	9
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	10
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	11
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	12
Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual	13
Notes to Financial Statements	14-23
Operating Fund Schedules	
General Operating Fund – Schedule of Revenue, Expenditures and Changes in Fund Balances	24
General Operating Fund – Detail Schedule of Revenue and Other Financing Sources – Budget and Actual	25
General Operating Fund – Detail Schedule of Expenditures – Budget and Actual	26
Internal Control and Compliance	
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards	27-28



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

February 24, 2004

Members of the Board of County
Road Commissioners
County of St. Joseph, Michigan
Centreville, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **ST. JOSEPH COUNTY ROAD COMMISSION**, a component unit of St. Joseph County, Michigan, as of and for the year ended December 31, 2003, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the St. Joseph County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **St. Joseph County Road Commission** as of December 31, 2003, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10, the Road Commission adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 and GASB Interpretation 6 as of January 1, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2004, on our consideration of the **St. Joseph County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **St. Joseph County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rehmann Lohman

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the St. Joseph County Road Commission (the "Commission"), we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2003.

Financial Highlights

This year's report is different from prior years due to the direction of the Governmental Accounting Standards Board (GASB) provided in Statement No. 34. The GASB is charged with developing "generally accepted accounting principles" (GAAP) for governmental entities and is the ultimate authority on GAAP for state and local governments.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the St. Joseph County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$26,905,897 at the end of the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The statement of activities presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within St. Joseph County.

The government-wide financial statements include only the Commission itself (known as the *Primary government*). The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for St. Joseph County which reports the Commission as a component unit.

The government-wide financial statements can be found on pages 9-13 of this report.

Fund financial statements. A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements. The Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found on pages 14 through 23 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Because this is the first year of implementation of governmental accounting standards board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

Condensed Statement of Net assets:

Current and other assets	\$ 2,316,566
Capital assets	<u>26,281,631</u>
Total Assets	<u>28,598,197</u>
Long-term liabilities outstanding	670,580
Other liabilities	<u>1,021,720</u>
Total Liabilities	<u>1,692,300</u>
Net assets:	
Invested in capital assets	25,737,191
Unrestricted	<u>1,168,706</u>
Total Net Assets	<u>\$ 26,905,897</u>

Condensed Statement of Activities:

Revenue

Permits	\$ 12,391
Federal Sources	429,921
State Sources	4,842,374
Local Sources	471,129
Charges for Services	1,814
Interest and Rentals	11,452
Taxes	862,947
Transfer from Primary Government	30,000
Other	<u>22,516</u>

Total Revenue	<u>6,684,544</u>
----------------------	-------------------------

Expenses

Public Works	5,130,226
Debt Service - Interest only	<u>27,905</u>

Total Expenses	<u>5,158,131</u>
-----------------------	-------------------------

Increase in Net Assets	<u>\$ 1,526,413</u>
-------------------------------	----------------------------

Capital Assets and Debt Administration

St. Joseph County Road Commission Capital Assets

During the current fiscal year, acquisitions for Road Equipment in the amount of \$513,787 are reflected in the capital assets. Also, infrastructure assets reflect construction and improvements to the primary and local road systems.

Land and improvements – not depreciated	<u>\$ 6,941,922</u>
Buildings	1,089,690
Road Equipment	6,763,410
Shop Equipment	265,028
Office Equipment	148,151
Engineering Equipment	57,181
Yard & Storage Equipment	24,355
Depletable Assets	130,309
Infrastructure	
Roads and Bridges	<u>34,524,119</u>
Sub-total	<u>43,002,243</u>
Accumulated Depreciation	
Buildings and improvements	469,078
Equipment	5,830,599
Depletable Assets	57,537
Infrastructure – Roads & Bridges	<u>17,305,320</u>
Total Accumulated Depreciation	<u>23,662,534</u>
Total Capital Assets being Depreciated – Net	<u>19,339,709</u>
Governmental Activities Capital Assets – net	<u>\$ 26,281,631</u>
Long-term Debt:	
Lease Purchase Agreements	\$ 544,440
Compensated absences	<u>126,140</u>
Total	<u>\$ 670,580</u>

Additional information on the Road commission's long-term debt can be found in Note 4 on page 19 of this report.

Economic Factors and Road Fund Budgetary Highlights

The Road Commission amended its 2003 budget during the year to reflect the decrease in the Michigan Transportation Fund (MTF) revenues as well as increased costs for health insurance. Expenditures exceeded revenues by \$245,431 in 2003. The original budget estimate for federal revenue sources was decreased by 27% due to federally funded projects not progressing into the construction phase in 2003.

In 2004, the general economic slowdown may result in decreased Michigan Transportation Fund (MTF) revenues. We will make the appropriate adjustments to the 2004 budget should this decrease materialize. Also, 2004 will be the final year of collections for a countywide road millage. In 2004, the Road Commission will be seeking another ten (10) year renewal of 1 mill for local road maintenance.

Requests for Information

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the St. Joseph County Road Commission Administrative Offices, 20914 M-86, Centreville, MI 49032.

BASIC FINANCIAL STATEMENTS

ST. JOSEPH COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2003

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and interest bearing deposits	\$ 81,064	\$ -	\$ 81,064
Accounts receivable			
Motor vehicle highway funds	779,484	-	779,484
Due on county road agreements	46,875	-	46,875
Taxes	852,803		852,803
Other	20,206	-	20,206
Inventories			
Road materials	423,318	-	423,318
Equipment material and parts	112,816	-	112,816
Capital assets			
Assets not being depreciated	-	6,941,922	6,941,922
Assets being depreciated	-	19,339,709	19,339,709
Total assets	\$ 2,316,566	\$ 26,281,631	\$ 28,598,197
LIABILITIES			
Accounts payable	\$ 123,867	\$ -	\$ 123,867
Accrued liabilities	15,140	13,428	28,568
Deferred revenue - property taxes	857,285	-	857,285
Performance bonds held	12,000	-	12,000
Long-term liabilities			
Due within one year	-	333,388	333,388
Due after one year	-	337,192	337,192
Total liabilities	1,008,292	684,008	1,692,300
Fund Balance/Net Assets			
Fund balance			
Reserved			
Inventories	536,134	(536,134)	-
Unreserved			
Undesignated	772,140	(772,140)	-
Total fund balance	1,308,274	(1,308,274)	-
Total liabilities and fund balance	\$ 2,316,566		
Net Assets:			
Investment in capital assets, net of related debt		25,737,191	25,737,191
Unrestricted		1,168,706	1,168,706
Total net assets		\$ 26,905,897	\$ 26,905,897

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

Reconciliation of General Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2003

Fund balances - General Fund	\$ 1,308,274
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	26,281,631
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Installment lease purchase agreements payable	(544,440)
Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	(13,428)
Deduct - compensated absences payable	(126,140)
Net assets of governmental activities	<u>\$ 26,905,897</u>

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2003

	General Operating Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Current:			
Public works	\$ 6,888,178	\$ (1,757,952)	\$ 5,130,226
Debt service:			
Principal	204,040	(204,040)	-
Interest	28,772	(867)	27,905
TOTAL EXPENDITURES/EXPENSES	7,120,990	(1,962,859)	5,158,131
PROGRAM REVENUES			
Charges for services	507,850	-	507,850
Operating grants and contributions	4,872,374	-	4,872,374
Capital grants and contributions	429,921	-	429,921
TOTAL PROGRAM REVENUES	5,810,145	-	5,810,145
NET PROGRAM REVENUES			652,014
GENERAL REVENUES			
Property taxes	827,595	-	827,595
Unrestricted grants and contributions	35,352	-	35,352
Interest earned	8,550	-	8,550
Property rentals	2,902	-	2,902
Proceeds from installment lease	191,015	(191,015)	-
TOTAL GENERAL REVENUES	1,065,414	(191,015)	874,399
NET CHANGE IN FUND BALANCES	(245,431)	245,431	
CHANGES IN NET ASSETS		1,526,413	1,526,413
FUND BALANCE/NET ASSETS,			
Beginning of year, as restated	1,553,705	23,825,779	25,379,484
FUND BALANCE/NET ASSETS, End of year	\$ 1,308,274	25,597,623	\$ 26,905,897

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2003

Net change in fund balances - General Fund \$ (245,431)

Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	563,886
Add - Infrastructure additions	3,132,406
Deduct - depreciation expense	(1,924,839)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds, but rather are deferred to the
following fiscal year (25,719)

Installment lease contract proceeds provide current financial resources to governmental
funds, but issuing debt increases long-term liabilities in the statement of net assets.
Repayment of debt principal is an expenditure in the funds but not in the statement
of activities:

Installment lease contract proceeds	(165,296)
Lease purchase installment payments	204,040

Interest expense is recorded in the statement of activities when a liability is incurred;
they are reported in the funds only when payment is due 867

Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Equipment retirements	(4,001)
Increase in compensated absences	(9,500)

Change in net assets of governmental activities \$ 1,526,413

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2003

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE - OVER (UNDER)
REVENUE				
Permits	\$ 9,000	\$ 12,300	\$ 12,391	\$ 91
Intergovernmental:				
Federal sources	630,000	462,000	429,921	(32,079)
State sources	4,875,000	4,705,900	4,842,374	136,474
Local sources	400,000	467,000	471,129	4,129
Charges for services	1,000	1,800	1,814	14
Interest and rentals	20,500	11,600	11,452	(148)
Taxes	861,100	862,300	862,947	647
Transfer from primary government	30,000	30,000	30,000	-
Other	2,500	24,900	22,516	(2,384)
TOTAL REVENUE	6,829,100	6,577,800	6,684,544	106,744
EXPENDITURES				
Current:				
Primary heavy maintenance	1,100,000	1,405,000	1,454,493	49,493
Local heavy maintenance	1,350,000	1,227,000	1,289,469	62,469
Primary maintenance	1,003,000	1,139,000	1,209,019	70,019
Local maintenance	2,505,000	2,536,600	2,585,584	48,984
Equipment - net	-	54,000	2,427	(51,573)
Administrative - net	320,000	374,000	391,099	17,099
Other	-	-	3,100	3,100
Capital outlay - net	-	(39,600)	(47,013)	(7,413)
Debt service	203,500	232,850	232,812	(38)
TOTAL EXPENDITURES	6,481,500	6,928,850	7,120,990	192,140
REVENUE OVER (UNDER) EXPENDITURES	347,600	(351,050)	(436,446)	(85,396)
OTHER FINANCING SOURCES				
Installment purchase/lease proceeds	-	191,000	191,015	15
NET CHANGE IN FUND BALANCES	347,600	(160,050)	(245,431)	(85,381)
FUND BALANCE, Beginning of year	1,553,705	1,553,705	1,553,705	-
FUND BALANCE, End of year	\$ 1,901,305	\$ 1,393,655	\$ 1,308,274	\$ (85,381)

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the St. Joseph County Road Commission (the "Road Commission") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The St. Joseph County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of St. Joseph, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the St. Joseph County Road Commission, a discretely presented component unit of St. Joseph County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission's General Operating Fund.

Basis of Presentation

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The general fund, the sole major governmental fund, is reported as a separate column in the aforementioned financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Budgetary Data

The governmental fund is under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund is adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. Variances at the functional level of control in the general fund are as follows:

	<u>Budget</u>	<u>Actual</u>
Primary heavy maintenance	\$ 1,405,000	\$ 1,454,493
Local heavy maintenance	1,227,000	1,289,469
Primary maintenance	1,139,000	1,209,019
Local maintenance	2,536,600	2,585,584
Administrative - net	374,000	391,099
Other	-	3,100

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Fund Balance Reservations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Infrastructure assets are being capitalized and depreciated beginning in fiscal year 2003 as indicated on the government-wide statements. Capital assets are defined by the Road Commission as assets with an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (general fund balance sheet and statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

	<u>Years</u>
Buildings and improvements	40
Equipment	5 to 8
Infrastructure	8 to 50

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2003, the amount of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured		
Held by St. Joseph County *	\$ -	\$ 61,152
Cash on deposit	81,064	81,064
	<u>\$ 81,064</u>	<u>\$ 142,216</u>

* Deposits of the Road Commission held by St. Joseph County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
Capital assets not being depreciated:				
Land	\$ 213,365	\$ 5,385	\$ -	\$ 218,750
Infrastructure land improvements	6,054,994	668,178	-	6,723,172
Subtotal	6,268,359	673,563	-	6,941,922
Capital assets being depreciated:				
Buildings and improvements	1,089,091	3,011	2,412	1,089,690
Road equipment	6,249,623	513,787	-	6,763,410
Shop equipment	261,680	4,272	924	265,028
Office equipment	115,432	34,251	1,532	148,151
Engineers' equipment	57,181	3,180	3,180	57,181
Yard and storage	24,355	-	-	24,355
Depleteable assets	130,309	-	-	130,309
Infrastructure	32,059,891	2,464,228	-	34,524,119
Subtotal	39,987,562	3,022,729	8,048	43,002,243
Accumulated depreciation and depletion:				
Buildings and improvements	440,442	29,432	796	469,078
Equipment	5,258,483	575,367	3,251	5,830,599
Depleteable assets	55,437	2,100	-	57,537
Infrastructure	15,987,380	1,317,940	-	17,305,320
Total accumulated depreciation and depletion	21,741,742	1,924,839	4,047	23,662,534
Total capital assets being depreciated - net	18,245,820	1,097,890	4,001	19,339,709
Governmental activities capital assets - net	\$ 24,514,179	\$ 1,771,453	\$ 4,001	\$ 26,281,631

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	<u>Balance January 1, 2003</u>	<u>Increases</u>	<u>Reductions</u>	<u>Balance December 31, 2003</u>	<u>Due Within One Year</u>
Land contract and installment lease purchase agreements	\$ 583,185	\$ 165,296	\$ 204,041	\$ 544,440	\$ 302,588
Compensated absences	116,640	9,500	-	126,140	30,800
Totals	\$ 699,825	\$ 174,796	\$ 204,041	\$ 670,580	\$ 333,388

Capital Leases

The Road Commission has the following remaining installment lease contracts, each of which is secured by the related equipment, as follows:

<u>Equipment</u>	<u>Annual Installments Including Interest</u>	<u>Interest Rate</u>	<u>Due</u>
1. Caterpillar Excavator	\$23,177 - \$122,500	4.75%	July 1, 2004
2. Freightliner Asphalt Trucks (2)	\$34,710	5.37%	March 1, 2004
3. CAT Wheel Loaders (3)	\$31,615	6.10%	June 1, 2004
4. Wise International Trucks (5)	\$63,542 - \$76,638	4.42%	October 31, 2005
5. Caterpillar Motor Grader	\$29,360	4.75%	March 1, 2006
6. MSG International Trucks (4)	\$45,248	3.73%	June 15, 2007

The annual requirements to pay principal and interest on debt outstanding at December 31, 2003, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 302,588	\$ 24,388	\$ 326,976
2005	128,150	10,000	138,150
2006	70,081	4,527	74,608
2007	43,621	1,627	45,248
Total	\$ 544,440	\$ 40,542	\$ 584,982

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Accrued Sick and Vacation

After the first six months of employment, employees earn one vacation day per month of service. In addition, one floating holiday is available every January 1st. Seniority days are based on employees' length of service, up to a maximum of 18 days for 40 years of service for all employees. Also, one personal day is granted each year, which cannot be carried over. Up to 15 accrued vacation and seniority days may be carried over and used in the succeeding year.

Sick leave is earned at the rate of 6 days per year and up to 60 days may be accumulated.

The employees' vacation pay, no greater than 80 hours, and sick pay are payable to employees who resign with proper notice, retire, or die.

5. PROPERTY TAXES

In December 2002, St. Joseph County levied 1 mill of real and personal property tax to townships within the County for the benefit of County roads. The total amount of the levy was \$827,595. Property taxes become an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable by February 14. The townships within the County bill and collect property taxes for the County, and the taxes are substantially collected by March 1st.

6. PENSION PLAN

The Road Commission established the St. Joseph County Road Commission Money Purchase Pension Plan, a single-employer defined contribution plan, on October 15, 1981. The plan, established to meet the requirements of Act No. 249, Public Acts of 1943, covers substantially all employees of the Road Commission. The Road Commission is required to contribute 6% of covered payroll at the end of each plan year. Employees do not contribute to the plan. Fifth Third Bank, Kalamazoo, Michigan is the trustee and administers the pension plan.

Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners.

To be eligible to participate in the plan, employees are required to have completed 12 consecutive months of service during which they have at least 1,000 hours of service.

Upon termination of employment for reasons other than retirement, total and permanent disability, or death, a participant is entitled to receive 100% of the participant's amount representing the vested percentage of the balance in the participant's employer contribution account at the date of termination of employment.

The Road Commission's contributions for each employee (and interest allocated to the employee's account) are partially vested after three (3) years of continuous service and fully vested after seven (7) years of continuous service.

For the plan year ended October 31, 2003, the Road Commission contributed \$95,031 (representing 6% of covered payroll) to the plan.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

7. RISK MANAGEMENT

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool "Pool" established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (inter local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The St. Joseph County Road Commission pays an annual premium to the Pool for general liability, excess liability, errors and omissions, auto liability, auto comprehensive, auto collision, equipment and building and contents.

The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Self Insurance Fund. The estimated amount of the IBNR, or "Incurred But Not Reported" claims associated with the self-insurance arrangements is not considered to be material at December 31, 2003.

The Road Commission continues to carry commercial insurance for all other risks of loss, including life insurance, health program, data processing, commercial crime and boiler and machinery. Settled claims have not exceeded insurance coverage for the last three years.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

8. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

9. SINGLE AUDIT

Governmental and certain other entities which expend \$300,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$429,921 of federal dollars which were passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit.

10. RESTATEMENTS

As of and for the year ended December 31, 2003, the Road Commission implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Road Commission was required to implement the new requirements for the fiscal year ending December 31, 2003.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The more significant of the changes required by the new standards include:

- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Budgetary schedules;
 - Notes to the basic financial statements

As a result of implementing these pronouncements for the fiscal year ended December 31, 2003, the following restatements were made to beginning net asset accounts.

Government-wide financial statements. Beginning net assets for governmental activities was determined as follows:

Fund balances of general fund as of December 31, 2002	\$ 1,553,705
Add: governmental capital assets, including general fixed assets as of December 31, 2002	46,255,921
Add: installment contract receivable as of December 31, 2002	25,719
Deduct: accumulated depreciation as of December 31, 2002 on above governmental capital assets	(21,741,742)
Deduct: bonds and installment leases payable as of December 31, 2002	(583,185)
Deduct: governmental compensated absences payable as of December 31, 2002	(116,640)
Deduct: accrued interest payable at December 31, 2002	(14,294)
Governmental net assets, restated, as of January 1, 2003	<u>\$ 25,379,484</u>

* * * * *

OPERATING FUND SCHEDULES

ST. JOSEPH COUNTY ROAD COMMISSION
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2003

	DESIGNATED		UNDESIGNATED	
	PRIMARY	LOCAL	COUNTY	
	ROAD FUND	ROAD FUND	ROAD FUND	TOTAL
REVENUE				
Permits	\$ -	\$ -	\$ 12,391	\$ 12,391
Intergovernmental:				
Federal sources	115,621	314,300	-	429,921
State sources	3,161,743	1,680,631	-	4,842,374
Local sources	13,800	457,329	-	471,129
Charges for services	-	-	1,814	1,814
Interest and rentals	1,857	3,402	6,193	11,452
Taxes				
County wide millage	-	827,595	-	827,595
State revenue sharing	-	35,352	-	35,352
Transfer from primary government	-	30,000	-	30,000
Other	(1,826)	22,570	1,772	22,516
TOTAL REVENUE	3,291,195	3,371,179	22,170	6,684,544
EXPENDITURES				
Heavy maintenance	1,454,493	1,289,469	-	2,743,962
Maintenance	1,209,019	2,585,584	-	3,794,603
Equipment - net	691	1,303	433	2,427
Administrative - net	159,316	231,783	-	391,099
Other	1,427	1,673	-	3,100
Capital outlay - net	(278,785)	-	231,772	(47,013)
Debt principal	-	-	204,040	204,040
Interest and fiscal charges	-	-	28,772	28,772
TOTAL EXPENDITURES	2,546,161	4,109,812	465,017	7,120,990
REVENUE OVER (UNDER)				
EXPENDITURES	745,034	(738,633)	(442,847)	(436,446)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	191,015	191,015
Internal transfers in	-	738,633	-	738,633
Internal transfers out	(738,633)	-	-	(738,633)
TOTAL OTHER FINANCING SOURCES (USES)	(738,633)	738,633	191,015	191,015
NET CHANGE IN FUND BALANCES	6,401	-	(251,832)	(245,431)
FUND BALANCE, Beginning of year	337,421	618,191	598,093	1,553,705
FUND BALANCE, End of year	\$ 343,822	\$ 618,191	\$ 346,261	\$ 1,308,274

ST. JOSEPH COUNTY ROAD COMMISSION

DETAIL SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2003

	AMENDED BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
Permits	\$ 12,300	\$ 12,391	\$ 91
Federal sources:			
Surface transportation program	102,000	115,621	13,621
Bridge	360,000	314,300	(45,700)
Total Federal Sources	462,000	429,921	(32,079)
State sources:			
Motor Vehicle Highway Funds - Act 51:			
Engineering	10,000	10,000	-
Primary roads allocation	2,950,000	3,003,470	53,470
Local roads allocation	1,540,000	1,561,284	21,284
Primary urban roads	143,000	144,741	1,741
Local urban roads	56,000	57,021	1,021
State Critical Bridge	-	58,931	58,931
Economic Development Fund	6,900	6,927	27
Total State Sources	4,705,900	4,842,374	136,474
Local sources:			
Township contributions	467,000	471,129	4,129
Total Local Sources	467,000	471,129	4,129
Charges for services:			
Salvage sales	1,800	1,814	14
	1,800	1,814	14
Interest and rentals	11,600	11,452	(148)
Taxes:			
County wide millage	827,000	827,595	595
State revenue sharing	35,300	35,352	52
Total Taxes	862,300	862,947	647
Transfer from primary government	30,000	30,000	-
Other:			
Gain (loss) on equipment disposal	(1,600)	(4,001)	(2,401)
Other	26,500	26,517	17
Total Other Revenue	24,900	22,516	(2,384)
TOTAL REVENUE	6,577,800	6,684,544	106,744
OTHER FINANCING SOURCES			
Installment purchase/lease proceeds	191,000	191,015	15
TOTAL REVENUE AND OTHER FINANCING SOURCES	\$ 6,768,800	\$ 6,875,559	\$ 106,759

ST. JOSEPH COUNTY ROAD COMMISSION

GENERAL OPERATING FUND DETAIL SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2003

	AMENDED BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
Heavy maintenance:			
Primary roads and structures	\$ 1,405,000	\$ 1,454,493	\$ (49,493)
Local roads and structures	1,227,000	1,289,469	(62,469)
Total Heavy Maintenance	<u>2,632,000</u>	<u>2,743,962</u>	<u>(111,962)</u>
Maintenance:			
Primary roads and structures, winter and traffic control	1,139,000	1,209,019	(70,019)
Local roads and structures, winter and traffic control	2,536,600	2,585,584	(48,984)
Total Maintenance	<u>3,675,600</u>	<u>3,794,603</u>	<u>(119,003)</u>
Equipment:			
Direct	1,000,000	907,135	92,865
Indirect	440,000	441,199	(1,199)
Operating	114,000	176,745	(62,745)
Less: Equipment rental	(1,500,000)	(1,522,652)	22,652
Total Equipment	<u>54,000</u>	<u>2,427</u>	<u>51,573</u>
Administrative:			
Administration	374,000	391,099	(17,099)
Total Administrative	<u>374,000</u>	<u>391,099</u>	<u>(17,099)</u>
Capital outlay:			
Buildings and equipment	562,000	563,886	(1,886)
Less - Depreciation	(600,000)	(606,898)	6,898
- Retirements	(1,600)	(4,001)	2,401
Total Capital Outlay	<u>(39,600)</u>	<u>(47,013)</u>	<u>7,413</u>
Other	-	3,100	(3,100)
Debt service:			
Principal retirement	204,050	204,040	10
Interest and fiscal charges	28,800	28,772	28
Total Debt Service	<u>232,850</u>	<u>232,812</u>	<u>38</u>
TOTAL EXPENDITURES	<u>\$ 6,928,850</u>	<u>\$ 7,120,990</u>	<u>\$ (192,140)</u>

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

February 24, 2004

Members of the Board of County
Road Commissioners
County of St. Joseph, Michigan
Centreville, Michigan

We have audited the basic financial statements of the St. Joseph County Road Commission, a component unit of St. Joseph County, as of and for the year ended December 31, 2003, and have issued our report thereon dated February 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the St. Joseph County Road Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the St. Joseph County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of St. Joseph County Road Commission in a separate letter dated February 24, 2004.

This report is intended solely for the information and use of management, the Board of County Road Commissioners, the County's Board of Commissioners, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Lobson



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

February 24, 2004

The Board of County Road Commissioners
of St. Joseph County, Michigan
Centreville, Michigan

We have audited the basic financial statements of **ST. JOSEPH COUNTY ROAD COMMISSION, a component unit of St. Joseph County**, as of and for the year ended December 31, 2003, and have issued our report thereon dated February 24, 2004.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated January 20, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered St. Joseph County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by St. Joseph County Road Commission are described in Note 1 to the basic financial statements. As described in Note 9 to the financial statements, in 2003 the Road Commission changed accounting policies related to the new financial reporting requirements for all state and local governments, by adopting Statements of Governmental Accounting Standards (GASB Statements) No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38 – *Certain Financial Statement Note Disclosures*. The cumulative effect of implementing these new standards resulted in a substantial restatement of beginning net assets/fund balances.

We noted no transactions entered into by St. Joseph County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by St. Joseph County Road Commission that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on St. Joseph County Road Commission.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as St. Joseph County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Board of Road Commissioners and management of St. Joseph County Road Commission, a component unit of St. Joseph County and respective federal and state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

Rehmann Lohorn

ST. JOSEPH COUNTY ROAD COMMISSION

COMMENTS

For the Year Ended December 31, 2003

This memorandum does not affect our report dated February 24, 2004, on the basic financial statements of St. Joseph County Road Commission.

I. GASB 34 Implementation

The basic financial statements for the year ended December 31, 2003 conform to the new reporting requirement under Governmental Accounting Standards Board Statement #34, which was an overwhelming overhaul of the way governmental basic financial statements are presented. For the Road Commission, similar to other first-time implementers, this implementation process was an important process, which took a significant amount of time of the staffs of the Finance Office and our independent audit firm to reconfigure the funds and schedules to conform to the new government-wide format, including infrastructure capital assets presented net of accumulated depreciation.

The new reporting format reflects the Road Commission on a government-wide basis for the *governmental activities*. The basic financial statements on a government-wide basis reflect positive net assets of approximately \$26,906,000. Approximately \$25,737,000 represents net assets that are included as capital assets net of related accumulated depreciation and long-term debt (leases payable). The balance of approximately \$1,169,000 represents net assets that are available for primary and local road projects and general road commission operations. Also, as pointed out in the MD&A section of the report is a summary of the Statement of Activities for the years ending December 31, 2003. It should be noted that these statements will have more meaning when the user can compare the results with more than one year (a trend analysis) as we go into the future with this new format for financial reporting.

* * * * *